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Egypt-EU FTA and U.S. Agricultural Exports to Egypt

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Report Highlights:

The Agricultural Agreement of the European Union-Egypt Free Trade Agreement was ratified into force in June 2010 and has already helped boost EU trade with Egypt, sometimes at the expense of U.S. exports. Under the Agreement, the EU now has duty-free access for all of its agricultural products except for a short list of exceptions. U.S. apples face the most immediate impact, as they face strong competition from Europe, despite a market preference for U.S. varieties and quality. About \$110 million of U.S. agricultural exports are in categories where EU tariff preferences are significant. However, many key U.S. agricultural exports already face zero or low duties. In addition, improved access for Egypt's fresh fruit and vegetable exports as well as processed foods may have some impact on U.S. exports to the EU.

General Information:

The Agricultural Agreement of the European Union-Egypt Free Trade Agreement was ratified into force in June 2010 and has already helped boost EU trade with Egypt, sometimes at the expense of U.S. exports. Under the agreement (attached to this report), the EU now has duty-free access for all of its agricultural products except for a short list of exceptions. However, U.S. apples and pears continue to face tariffs of 20%, dairy products (except milk powder) face 2-20% tariffs, prepared fruits and nuts face 5-20% tariffs, cereals face 30% tariffs, and pet foods face 30% tariffs. In addition, the EU received tariff rate quotas or significant tariff reductions on a number of products including poultry meat, fresh cheese, confectionery, chocolates, and pasta. EU products already play a major role in these markets in Egypt and U.S. exporters will find it all the more difficult to make sales. The U.S. exported over \$110 million of these goods to Egypt in FY 2010, but this figure may drop in the future in the face of increased competition with duty-free European exports.

For example, U.S. apple exports to Egypt have grown rapidly from \$3.3 million in 2005 to \$14.7 million in 2009 and U.S. exporters looked toward a 10-20 percent increase this year. Consumers and the trade prefer U.S. apple varieties and quality to other origins. In addition to the 20 percent duty, there has been an increase in the customs valuation, which essentially increases the duty paid on Chinese and U.S. apples, but doesn't affect duty-free EU apples. Customs valuation of U.S. apples increased from \$550/ton to \$700, while Chinese apples increased from \$375 to \$550. Importers indicate U.S. sales will likely decline this season due to the tariff advantage for EU apples. However, through October 2010, U.S. exports totaled \$11 million, the same as in 2009. Post expects to see a drop in exports at the end of 2010 and beginning of 2011.

Many key U.S. agricultural exports face zero or low duties, and should not be impacted. These include corn, soybeans and wheat which account for \$1.1 billion of the \$1.6 billion of US agricultural exports through October 2010. The \$132 million in beef and offal exports only face 5 percent duties.

The FTA, formally known as the "Euro-Mediterranean Agreement establishing an association between the European Communities and their Member States and the Arab Republic of Egypt," also provides duty free or TRQ access for a number of Egyptian agricultural products. While Egypt did receive a fairly significant duty free TRQ for rice, 20 TMT of milled and 70 TMT of brown rice, current market conditions in Egypt make it unlikely that these TRQs will be utilized. Egyptian fresh fruit and vegetable and processed food exports will also benefit, although often the U.S. season differs from Egypt's.

There is also an SPS annex to the Agreement which may offer certain advantages to the EU in dealing with SPS issues. In addition, an ongoing "Twinning" project with the General Organization for Veterinary Services and a newly initiated one with the Central Administration for Plant Quarantine appear to provide additional access and influence.

